

New Tirupur Area Development Corporation and IL&FS spat reaches Registrar of Companies

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The dispute between New Tirupur Area Development Corporation Limited (NTADCL) and its shareholder Infrastructure Leasing & Financial Services Ltd. (IL&FS) over debt repayment has now reached the doorstep of the Registrar of Companies (RoC), Coimbatore.

The NTADCL management has written to the RoC alleging conflict of interest over participation of IL&FS's nominee directors

in board meetings with an agenda related to disbursement of IL&FS's senior loan. However, the IL&FS has denied the charge.

In 1995, the NTADCL was incorporated as a special purpose vehicle and public utility to improve potable water and sewerage infrastructure in Tirupur through an integrated water supply and sewerage project. In 2000, the Tamil Nadu Water Investment Company Ltd. (TWIC) was formed to route all investments into the NTADCL. The Tamil Nadu govern-

ment owns a 46% stake in the TWIC and the IL&FS, 54%. The TWIC holds a 28.72% stake in the NTADCL. Overall, the State government owns a 38.32% stake in the NTADCL, and the IL&FS, 25.88%.

The total cost of the project was ₹1,023 crore and the financial closure was done in March 2002. For the project, the IL&FS brought in ₹180 crore as a senior loan, of which it raised ₹90 crore from the U.S. Agency for International Development

(USAID). On this loan, the IL&FS made deductions of about ₹41.24 crore and disbursed ₹48.76 crore to the NTADCL.

Due to the deteriorating financial position of the NTADCL, a corporate debt restructuring (CDR) plan was implemented on March 29, 2012, as part of which the State government infused ₹150 crore into the NTADCL. As per the plan, 30% of the IL&FS debt was converted into equity. After the implementation of the CDR, the senior loan to be repaid by

the NTADCL was ₹120.27 crore.

In its letter to the RoC, the NTADCL management has alleged that the deduction of ₹41.24 crore by the erstwhile IL&FS management was illegal and that the short-disbursement of senior loan by the IL&FS resulted in more financial implications. The NTADCL management decided to stop payment to the IL&FS based on legal opinion, it said. The NTADCL also alleged that it had been defrauded by the erstwhile IL&FS management. It

pointed out that out of the nine directors, three were nominees of the IL&FS – L. Krishnan, G. Mahalingam, and Baijiu Mathew – and sought the intervention of the RoC to direct the nominee directors of the IL&FS not to participate on the agenda items related to IL&FS senior loan disbursement issue. Based on the NTADCL's letter, the RoC sought clarifications from the nominee directors of the IL&FS. In a letter, dated March 5, the RoC said that till the matter was under consideration, the nomi-

nee directors should refrain from attending the board meeting relating to the agenda items under conflict of interest.

Responding to the RoC, the IL&FS said its new board (constituted after 2018 fiasco), including Mr. Mahalingam, have been appointed by the National Company Law Tribunal (NCLT), Mumbai on the recommendation of the Ministry of Corporate Affairs. The new board and nominee directors have been granted immunity by NCLT and said that the question

of conflict of interest does not arise. It also said that the issues raised by the NTADCL were already *sub judice* before the NCLT.

It also denied the allegations of fraud and said that the NTADCL had unilaterally stopped repaying the IL&FS Senior Loan to the tune of ₹52.92 crore and requested the RoC to dismiss the NTADCL's compliant and restore the status quo. Meanwhile, it is learnt that Mr. Mahalingam has resigned, and has been replaced by another director from the IL&FS.